COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Notice of Inquiry into the Unbundling of all natural gas local distribution companies' service	)	**D.T.E. 98-32**

INITIAL COMMENTS OF BLACKSTONE GAS COMPANY

Introduction

On March 18, 1998 the Massachusetts Gas Unbundling Collaborative ("Collaborative") submitted a Status Report to the Department. The Collaborative consists of nine local distribution companies including Blackstone Gas Company ("Blackstone") and other stakeholders including marketers of natural gas and services, customer groups, government agencies, the Department and Bay State Gas Company. The Status Report seeks guidance on two key policy issues, capacity disposition and cost responsibility. (Report at 4.) On April 3, 1998 the Department of Telecommunications and Energy ("DTE" or "Department") initiated this Notice of Inquiry into the unbundling of all natural gas local distribution companies' service.

While this proceeding will address all unbundling issues in the natural gas industry, the Department indicated that it will initially focus on the two policy issues for which the Collaborative participants have requested guidance (1) capacity disposition and

(2) cost responsibility. The Department has requested initial comments on the merits and limitations of voluntary assignment of capacity, mandatory assignment of capacity and the portfolio auction proposed by the LDCs. Comments were initially requested by April 24, 1998 which date has been extended to May 1, 1998.

Blackstone did not initially sponsor the LDC Proposal contained in Attachment D to the Status Report. After reviewing the terms of its own capacity and storage contracts and the minimal impact on customers that do not migrate to transportation service, Blackstone does not believe that a mandatory capacity release system is required for its system. In addition, Blackstone has entered into a Gas Supply Agreement, approved by the Department, which provides for the management of all its pipeline capacity and storage assets through October 31, 2000. Thus, a new portfolio auction is not currently an option for Blackstone. It has already held its own portfolio auction which has been approved by the Department.

Several parties to the Collaborative have claimed that a voluntary capacity release program provides customers more flexibility and the ability to reduce their burner tip price for natural gas. Based on these claims and the limited penetration of gas in Massachusetts compared with other parts of the country, a voluntary capacity release program should increase throughputs of natural gas. This should provide both an economic and an environmental benefit to the area. Thus, Blackstone would support a voluntary capacity release program for its system.

However, to the extent a customer migrates to transportation and fails to accept capacity assignment from Blackstone, there must be clear authority for Blackstone to curtail service to those customers that do not bring gas to the city-gate during critical peak days. In addition, Blackstone must be allowed to continue to collect its total gas supply, capacity and storage costs through the rates.

Response to Questions

Blackstone now responds to the questions posed by the Department in this proceeding to the extent it believes its position differs from other LDCs.

1. Potential for Stranded Costs at Each LDC.

Blackstone has one gas supply contract with Tennessee Gas Marketing Company ("TGM"). This contract provides 100% of the gas requirements for customers of Blackstone. This contract was approved by the Department in D.P.U. 96-57. As part of the supply arrangement, Blackstone transferred management of its interstate transportation and storage capacity on Tennessee Gas Pipeline Company to TGM for the term of the agreement.

Blackstone pays TGM a reservation charge for base supplies and peak supplies (November through March). Blackstone does not pay any transportation demand charges, but does have an obligation to transport a minimum of 66,500 dekatherms ("Dth") per year under the FT-GS transportation rate. Blackstone also incurs fixed charges associated with storage rights. In total, Blackstone's demand and reservation charges account for only about 4.7% of its annual gas cost.

Blackstone's Gas Supply Agreement extends through October 31, 2000 and automatically extends from year to year unless terminated by either party upon six (6) months prior written notice. Blackstone's transportation and storage contracts extend through November 1, 2000 and automatically extend for five (5) years unless terminated by Blackstone or a shorter extension term is requested by Blackstone upon one (1) year prior written notice.

Blackstone has two Gas Transportation Agreements with Tennessee Gas Pipeline Company. Contract No. 2505 provides a maximum daily quantity (MDQ) of 110 Dth under FT-GS Rate Schedule with a Receipt Point at Tennessee Gas Pipeline Northern Storage in Potter, PA. and a Delivery Point to the Blackstone-Bellingham city-gate. Contract No. 2506 provides a maximum MDQ of 408 Dth from three receipt points with two delivery points, one to the storage field in Potter, PA and the second to the Blackstone-Bellingham city gate. Attached is Exhibit A to this Agreement indicating the quantities from each of the three receipt points. Blackstone also has a Gas Storage Contract No. 472 with Tennessee Gas Pipeline. The Maximum Injection Quantity is 110 Dth and the Maximum Withdrawal Quantity is 111 Dth. The annual Maximum Storage Quantity is 16,650 Dth on a cumulative basis.

As noted above, fixed demand and reservation charges account for only about 4.7% of the total annual gas and capacity costs of Blackstone. Thus, if ten (10%) percent of current gas sales migrates to transportation and declines capacity and storage assignment under a voluntary capacity assignment program, the impact on a residential heating customer utilizing 250 CCFs per month would be $0.60 per month or $ 0.0024 per CCF which is a 0.35% increase. Under a mandatory capacity assignment program the impact on this residential heating customer would be $0.45 per month or $0.0018 per CCF which is a 0.25% increase. The bulk of these costs are incurred under the gas supply contract. This could be mitigated if Blackstone is able to reduce its annual nomination for Peaking Service Quantity to the contract minimum. In addition, gas supply costs could be increased or decreased based on the load factor of the migrating customers compared with the system average load factor.

The only difference between a mandatory and voluntary assignment for Blackstone and its non-migrating customers is in the storage demand charges that could be avoided under a voluntary program by a migrating customer. A mandatory program would also reduce the possibility that volumes would fail to comply with the minimum throughput provision. However, the 1997 annual throughputs exceeded the minimum by approximately 33,500 Dth. Thus, about one-third of the current sales customers volumes would have to migrate to transportation and not accept capacity assignment under a voluntary program before the minimum provision would not be met.

2. Capacity Assignment Principles

Blackstone has not joined the other LDCs in their proposal for mandatory capacity assignment and a portfolio auction for two reasons. First, Blackstone has no fixed capacity costs provided its minimum annual transportation level is maintained and only minor storage demand costs. The only other fixed costs incurred by Blackstone are under its gas supply contract with TGM. Under that contract Blackstone incurs certain fixed charges for management of its capacity and storage contracts which would not be reduced or avoided under either a mandatory or voluntary capacity assignment program. Second, Blackstone has complied with the portfolio auction under its gas supply contract through October 31, 2000. Thus, an auction would not apply to Blackstone for more than two years.

Several parties in the Collaborative have indicated that the flexibility of a voluntary capacity assignment program can be a benefit to customers, at no cost to Blackstone. Blackstone does not object to a voluntary capacity assignment, provided that it is allowed to continue to recover all gas costs and capacity and storage costs incurred through the cost of gas adjustment clause ("CGAC"). However, if Blackstone incurs costs because transportation throughputs fall below the minimum annual requirements, Blackstone would suggest a separate charge applicable to those customers that cause the reduction. If the cause is migration of sales customers to transportation, without voluntary assumption of capacity, transportation customers should be required to pay for the minimum charges so long as the causation of these charges remain the responsibility of migrating transportation customers. This surcharge should only apply to customers that fail to elect capacity.

All capacity and storage contracts of Blackstone can be terminated as of November 1, 2000. Thus, if some or all transportation customers are charged a transition charge as a result of unused minimum throughputs, this charge should end as of November 1, 2000.

If Blackstone is authorized or directed by the Department to renew or extend its capacity contracts for the benefit of sales customers after November 1, 2000 these costs should be recovered from sales customers through the CGAC.

3. Cost Responsibility

The Department's current policy is to allow all prudently incurred gas costs, including all pipeline capacity and storage costs to be recovered through the CGAC. These costs are recovered from all current gas customers in a volumetric charge. The CGAC is a reconciling clause and the customers are charged the exact cost incurred by the LDC to obtain gas supplies and transportation to the city-gate. A LDC earns no return on the sale of gas and its pipeline and third party-owned storage resources.

If Blackstone continues in the merchant function and retains the obligation to serve all or a segment of the customers requesting gas service at the conclusion of this proceeding, it must be allowed to recover all gas costs. If there is any change in the method of cost recovery of gas supply, capacity and storage costs, the Department must take into consideration existing contracts and allow Blackstone sufficient time to adjust to the new regulatory practice. If the Department determines that a change in gas cost recovery must be initiated prior to the expiration of existing contracts this may create stranded or transition costs that must be recoverable by Blackstone. Either a voluntary or mandatory capacity assignment program is consistent with the current cost recovery of gas supply resources through the CGAC.

Blackstone does not believe any significant stranded costs will result from voluntary capacity assignment based on its contracts. The only costs that would be stranded if the minimum throughput level is maintained are storage demand costs. Blackstone anticipates a market for its storage service that should reduce or eliminate these costs. If Blackstone is required to remain in the merchant function during any transition period, these storage assets would be valuable for present and future gas sales customers.

Blackstone has outlined in response to question 2, a method of allocating minimum transportation throughput charges if caused by migration to transportation by current sales customers. This method would not impose additional costs upon non-switching end-users or upon the LDC.

4. Reliability of Service

If a customer fails to elect capacity and storage under a voluntary capacity program and relies on less than firm capacity, this could reduce the reliability of receipt of gas supplies at the city-gate during critical days during the peak winter period.[1] It is our understanding that capacity and storage assets are becoming commoditized by the market and will be available in the gray market to a marketer for a price even during peak

[1] Under a mandatory capacity assignment program, a marketer can utilize capacity assigned from Massachusetts LDCs for other customers on a critical day. Thus, reliability is not necessarily improved under a mandatory capacity release program. In either a voluntary or mandatory program customers must rely on suppliers intent to obtain and retain customers by providing good, reliable service.

periods.

Any customer that migrates to transportation will have the obligation to make sure its supplier is reliable and provides the customer the type of service expected for the price agreed to. To the extent that there are events of force majeure, and pipelines are unable to deliver gas, the reliability will be no different than under the current bundled market.

Under a mandatory capacity assignment the marketer or customer is required to take and pay for an assignment of capacity. There is no requirement that these assets remain dedicated to that specific customer or even the Massachusetts market. If that were the case there would be no ability to provide customers with any efficiencies from the management of capacity in a larger market by national marketers. If a marketer attempts to minimize costs and use some or all of these assets in another jurisdiction to serve other customers these assets may not be available to the Massachusetts market on a peak day. Thus, the Department must recognize that a customer that migrates to transportation under a mandatory assignment program still has the obligation to make sure that its marketer can supply the product in a reliable manner under the terms of its contract. With the commoditization of the capacity market this scarce resource will be rationed by price increases during peak periods. When the price increases sufficiently, pipelines will expand their capacity to address the situation provided customers and marketers are willing to pay the price.

5. Reliability Oversight

Reliability oversight during the transition and afterwards should be addressed in the licensing procedures for gas marketers. The licensing procedure should provide reasonable assurances that only reputable marketing firms that can stand behind their commitments are licensed. The Department may want to establish one or two products that all marketers must provide under a standard contract while allowing for innovation beyond that to address the individual needs of customers.

6. <u>Responsibility for Reliable and Adequate Service</u>

The LDC should retain the obligation to serve existing sales customers during the transition. However, once a customer migrates to transportation he/she/it should be considered a new sales customer and should be allowed to return to bundled sales service only if the LDC has adequate pipeline capacity and storage resources at that time The Department should establish a clear policy including the cost recovery method which allows the LDCs to decide whether to renew or evergreen capacity and storage assets and for what period of time.

To the extent that a customer migrates to transportation, the LDC should have no obligation to provide gas service. The only obligation of the LDC should be to provide delivery service if the customer's gas is received at the city-gate. If gas is not received at the city-gate during critical days for a transportation customer, the LDC must have the right to terminate its use of gas if necessary to serve existing gas sales customers. The LDC must be allowed to implement a curtailment plan in case of unexpected emergencies.

7. Downstream Assets

Blackstone owns no downstream capacity or storage assets.

Blackstone at this time assumes that its responses to questions 8-10 would not differ from the joint LDC response. To the extent there is any difference of opinion regarding these questions, Blackstone will so indicate in its reply comments.

GAS TRANSPORTATION AGREEMENT
(For Use Under Ft-GS Rate Schedule)

EXHIBIT "A"
TO GAS TRANSPORTATION AGREEMENT
DATED September 1st, 1993
BETWEEN
TENNESSEE GAS PIPELINE COMPANY
AND
BLACKSTONE GAS CO

SERVICE PACKAGE: 2506
SERVICE PACKAGE TQ: 408

AMENDMENT EFFECTIVE DATE: September 1st, 1993

METER	AMD	METER NAME	INTERCONNECT PARTY NAME	COUNTY	ST	ZONE	R/D	LEG	METER-TQ
0741	0	STA 47 POOLING POINT		QUACHITA	LA	01	R	100	142
0743	0	STA 834 POOLING POINT		FRANKLIN	LA	01	R	800	86
0744	0	STA 542 POOLING POINT		NOXUBEE	MS	01	R	500	180
0424	0	BLACKSTONE-BELLINGHAM MASS	BLACKSTONE GAS CO	NORFOLK	MA	06	D	200	408
0018	0	TGP-NORTHERN STORAGE INJECTI		POTTER	PA	04	D	300	111

NUMBER OF RECEIPT POINTS: 3
NUMBER OF DELIVERY POINTS: 2